Financial Institutions Ratings
Barclays Bank plc – T2 rating report

Security ratings

Outlook	Stable
7.625% USD 3bn fixed rate contingent capital notes	BBB+
7.75% USD 1bn fixed to fixed rate contingent capital notes	BBB+

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

We have assigned a rating of BBB+ to Barclays Bank's 7.625% USD 3bn and 7.75% USD 1bn contingent capital notes based on the following:

- Senior unsecured debt rating (eligible for MREL/TLAC): A, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 2
- Additional notches: 0

In accordance with our recently updated rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating and no longer the issuer credit-strength rating (ICSR). The minimum two notches reflect the subordinated status of Tier 2 capital instruments in the priority of claims and their loss absorbing features. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2016 for more details.

Under the Bank Recovery and Resolution Directive (BRRD), Tier 2 capital instruments should be written-down or converted when the issuer has reached the point-of-non-viability (PONV). While the security has a 7% trigger (CRD IV transitional basis, FSA October 2012 statement), we take the view that the PONV may be below or above this level. Therefore, the minimum two notches for Barclays Bank's Tier 2 securities in our opinion sufficiently captures the potential principal loss absorption risks.

Issuer credit profile

The ICSR of A+ for Barclays is driven by the group's continuing efforts to adapt its business model to a changed operating environment. Excluding the Africa business which Barclays intends to sell down to a stake below 20%, nearly half of group income currently stems from strong franchises in UK retail and business banking and credit cards. The size of the core investment banking business, which had been reduced to less than a third of group RWAs, is expected to remain relatively unchanged going forward and contribute to earnings diversification. While performance may suffer over the next two years this reshaping combined with the run-down of non-core assets should enable the group to generate long-term sustainable earnings. We take comfort in management's track record of strengthening the group's capital and liquidity and funding positions. Potential conduct and litigation costs remain a risk.

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Summary terms

Issuer	Barclays Bank plc
Issue Date	November 2012
Amount	USD 3bn
Coupon	• 7.625% • Payable semi-annually in arrears
Format	Fixed rate contingent capital notes due November 2022
ISIN	US06740L8C27
Principal Loss Absorption	• Upon capital adequacy trigger event, there will be an automatic transfer of interests in the notes to the parent, Barclays plc, for nil consideration.

Issue Date	April 2013
Amount	USD 1bn
Coupon	• 7.75% fixed until call date, reset thereafter • From first call date at Mid-Market Swap Rate plus 6.833% • Payable semi-annually in arrears
Format	Fixed to fixed rate contingent capital notes due April 2023, callable April 2018
ISIN	US06739FHK03
Principal Loss Absorption	• Upon capital adequacy trigger event, automatic write-down of full principal amount of notes and lost of interest accrued since the last coupon payment date • Contractual acknowledgment of UK bail-in power

Capital Treatment	Tier 2
Trigger for Principal Loss Absorption	Consolidated group CET1 < 7% on transitional basis (per FSA October 2012 statement)

Source: Prospectuses, Scope Ratings

Key risk: principal loss absorption

Both securities contain loss absorption features. Investors will lose their entire investment in the notes upon a breach of the trigger. The trigger level is breached when Barclays' consolidated CET1 ratio is below 7% on a transitional basis as per the FSA October 2012 statement.

For the USD 1bn notes issued in 2013, the loss would happen via a permanent write-down of the notes. Noted in the prospectus is the specific risk that the write-down may occur even if existing preference shares and ordinary shares of Barclays plc and Barclays Bank plc remain outstanding.

In addition, investors in the security agree and consent to the exercise of any UK bail-in power by the relevant UK resolution authority that may result in the cancellation of all, or a portion, of the principal amount of and/or conversion of all or a portion of the principal amount of the securities into shares or other securities.

For the USD 3bn notes issued in 2012, the loss would happen via an automatic transfer of interests in the notes to Barclays plc for nil consideration. While these securities do not contain a contractual acknowledgement of UK bail-in power, the prospectus highlights the broad powers of the UK regulator to cause the notes to absorb losses.

Distance to trigger

As of 31 March 2016, Barclays' transitional CET1 ratio was 12.5% (as per the FSA October 2012 statement) based on GBP 45.3bn of transitional CRD IV CET1 capital and GBP 363bn of RWAs. This compares to a fully-loaded CET1 ratio of 11.3%.

Management has communicated that the group's target future CET1 ratio will take into consideration future minimum requirements and CRD IV buffers plus a management buffer of 100bps to 150bps, rather than a fixed target. In addition, the ability to successfully pass Bank of England stress tests is a key part of the group's capital planning. By 2019, we currently estimate that Barclays may need to maintain a minimum fully-loaded CET1 ratio well in excess of 11%; based on the Pillar 1 minimum of 4.5%, a capital conservation buffer of 2.5%, a G-SIB buffer of 2%, a countercyclical buffer of 0.5% and Pillar 2A of 2.2%.

As the trigger is measured against the group's transitional CET1 ratio, we would expect the distance to trigger to decline as we approach 2019. However, in light of the group's estimated minimum CET1 ratio requirements in 2019 (above 11%), we would still anticipate a solid distance to trigger.

Table 1: Distance to trigger

	2015	1Q 2016	2017	2018	2019
Trigger level	7.0%	7.0%	7.0%	7.0%	7.0%
Barclays plc CET1, transitional	13.1%	12.5%			
Gap (%)	6.1%	5.5%			
Gap (GBP bn)	21.9	20.0			

Notes: 2015 CET1 ratio is based on transitional CRD IV CET1 capital of GBP 46.8bn and RWAs of GBP 358bn.
Source: Company data, Scope Ratings

Other outstanding capital instruments

Within the group, Barclays plc, the holding company, has issued over GBP 5bn equivalent of AT1 securities. To date, all these AT1 securities have been issued with a 7% trigger on a fully-loaded basis with conversion into equity. Meanwhile, these Tier 2 securities have been issued by Barclays Bank plc with a 7% trigger on a transitional basis. For all securities, the trigger is based on the consolidated group's CET1 ratio.

During the transition period (until 2019), if there were to be a trigger breach, we would expect the AT1 securities to be converted first as the trigger is based on a fully-loaded basis. However, after 2019, there is some uncertainty about which securities would be converted or written down first – the AT1 securities issued by the holding company or the Tier 2 securities issued by the operating bank. Both the AT1 and Tier 2 securities have the same trigger at 7%.

Regulatory Disclosures

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund and Dr. Sven Janssen.

The rating analysis has been prepared by Pauline Lambert, Executive Director

Responsible for approving the rating: Sam Theodore, Managing Director

The rating concerns a newly-issued financial instrument which was evaluated for the first time by Scope Ratings AG.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

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Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodologies applicable for this rating “Bank Rating Methodology” (May 2016) & “Bank Capital Instruments Rating Methodology” (May 2016) are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope’s credit rating, definitions of rating symbols and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency’s website.

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